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RUEHML/AMEMBASSY MANILA 2962
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RUEHKP/AMCONSUL KARACHI 9442
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SUBJECT: THE PORT OF GWADAR: MEGA PORT DREAM REQUIRES ENERGY TO BE REALITY. INVESTORS NEEDED.

REFS: A) Islamabad 0655; B) Islamabad 0921; C) Islamabad 0810

¶1. (SBU) SUMMARY. Without fanfare and in the midst of the political changeover, Pakistan's strategic new seaport in Balochistan became operational and opened the trade routes to Central Asia, Afghanistan and Iran. Investors and energy are desperately needed to make the Pakistani dream of a mega-port into reality. END SUMMARY.

¶2. (U) This is the fourth in a series of cables on Pakistan's energy sector.

¶3. (SBU) With the recent activity surrounding the formation of a new government, little attention was paid to the commencement of operations at Pakistan's newest port. Gwadar, in Balochistan province, is Pakistan's third seaport and serves as the strategic gateway to increased trade with Central Asia, Afghanistan and Iran. While there has been no fanfare or official inauguration, Mr. Syed Muhammad Hussain Zaidi, Spokesperson of the Ministry of Ports and Shipping confirmed that "as far as the Government of Pakistan is concerned, the port is operational."

¶4. (SBU) The biggest bulk vessel ever to berth at a Pakistani port, the "Pos Glory", carrying 72,700 metric tons of wheat docked off-shore on March 10 with cargo offloading completed on March 18. According to local media reports, the Ministry of Agriculture decided to route the vessel from Karachi to Gwadar due to port overcrowding at Port Qasim. More than 200 trucks were then utilized to transport the wheat throughout Pakistan to help alleviate the national shortage. Two additional cargo vessels are expected in April. Zaidi noted that the pace of port activities will depend on the port's Singaporean operator.

Operations and Capacity

¶5. (SBU) In February 2007, Pakistan signed an agreement with the globally known Port of Singapore Authority (PSA) and the Concession-Holder Company (CHC), a subsidiary of PSA International for handing over Gwadar port operating rights. Under the agreement, the Gwadar Port Authority (GPA) will receive revenues from PSA over

a period of 40 years. PSA International is owned by the Singaporean government's investment-holding company Temasek.

¶ 6. (SBU) The CHC will establish three separate operating companies to manage the port area and cargo operation, the marine functions and to operate a free trade zone. These companies will enjoy a 20 year concession on taxes at the federal, provincial and local levels. Under the agreement, the CHC will pay a fixed 9 percent share of its revenues to the GPA. Pakistan will get 15 percent of the revenue from the free trade zone, where warehouses and other facilities will be constructed by the PSA. Pakistan has declared Gwadar a special economic zone and all imports coming through this zone will be exempted from customs duty and sales tax along with concessions on income tax. Pakistan has reportedly decided to give a seven-year tax exemption to industrial and commercial establishments in the Gwadar Special Economic Zone.

7. (SBU) At a cost of USD 248 million, the recently completed phase one development at Gwadar has resulted in three multipurpose berths 602 meters long, with a 4.5 kilometer long approach channel dredged to 11.5 to 12.5 meters, a turning basin with a diameter of 450 meters and one 100 meter service berth. The port can handle bulk carriers of up to 30,000 dead weight tons (DWT) and container vessels of 25,000 DWT. The current cargo-handling capacity of Gwadar port is 50 million tons with plans to increase capacity to 300 million tons in 20 years.

¶ 8. (SBU) Government of Pakistan (GOP) plans for Phase II of the Gwadar port lack investors for the estimated USD 524 million project, but allow for construction to occur on either a build to operate basis or with transfer of operations after completion. Phase II plans call for construction of nine additional berths including

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two container berths, one bulk cargo terminal, one grain terminal with capacity to handle vessels up to 100,000 DWT, one roll on/roll off terminal, two oil piers for vessels up to 200,000 DWT and future expansion of two container berths.

Energy and Investors Needed

¶ 9. (SBU) Pakistan has grand dreams of making the Gwadar port a regional city hub and mega port in the same vein as Dubai, Hong Kong or Singapore. Plans for development of hotels, restaurants, and other projects in the area have been developed but all are lacking two elements - Energy and Investors. To meet the demands of its future commercial and industrial needs, Gwadar will need an infusion of electricity. When the port becomes fully operational, the power demand will certainly increase and current estimates put demand from the present 4 MW to 14 MW in 2010 increasing to 74 MW in 2030 and 370 MW in 2050.

¶ 10. (SBU) Since December 2002, Pakistan has been importing 35 MW electricity from Iran through the Mand interconnection on 132 KV transmission line (2 MW on 20 KV through Tuftan and 2 MW on 20 KV from Mshkehl) for Pakistan's coastal areas of Mekran where estimated demand is 17.5 MW. In February 2007 Pakistan and Iran signed a power purchase agreement for the supply of an additional 100 MW to Pakistan. The Iranian state run power company, Tavanir will supply 100 MW to Gwadar through a 170 km long 220 KV double circuit transmission line between 200 KV Polan sub-station at the Iranian side of the border and the 220 KV Gwadar sub-station. Under the agreement a 100 km long line will be constructed in Pakistan and the remaining 70 KV line will be constructed in Iran.

¶ 11. (SBU) The power supply to Gwadar port will start in January 2009 at a cost of USD 86 million, of which USD 26 million will be funded by Tavanir. The electricity tariff is set at 6.25 cents per kilowatt hour. This tariff, including Iran's transmission line capital cost, is less than Pakistan's average electricity tariff from domestic sources. Pakistan has also requested that Tehran supply 1000 MW more electricity upon completion of the 220 KV line to meet future power requirements.

¶12. (SBU) As part of the GOP's long term power strategy, a 132 KV grid station is under construction in Gwadar and two similar grid stations are in the planning stages. At present a small power station at Gwadar is operational which is meeting Gwadar's current demand of 4 MW.

¶13. (SBU) COMMENT. The potential for investment in the energy sector in Gwadar is enormous and American companies should avail themselves of potential opportunities. If Pakistan has plans to make Gwadar a mega port city then dependency on Iran for energy supply will not be sufficient and other power sources will have to be identified. There is tremendous potential to use the Mekran coast in off-shore exploration of oil and gas in the Arabian Sea and Pakistan Petroleum Limited is looking at exploration opportunities with an initial investment of USD 35 million. They have unsuccessfully dug one offshore well and are looking for joint venture opportunities to dig at least three or four more wells.

¶14. (SBU) COMMENT CONTINUED. Wind maps have already been prepared, and future wind generation is another viable option and investment opportunity. Additionally, Gwadar port and its adjoining area will need desalination plants for making sea water suitable for electricity production and drinking. Solar thermal power plant could provide reliable energy and clean water. With the opening of the Gwadar port, options and opportunities for investment are abundant and investors will be welcomed. END COMMENT.

BODDE